

firm accounts, representing approximately 35 equity option classes, used the equity hedge exemption on a consistent basis in 1994. Moreover, the Study indicated that many institutions had significant positions both in equity options qualifying for the expanded tiers and in the underlying securities. As noted below, the CBOE also received comments in support of expanding the equity hedge exemption.<sup>9</sup>

For the above reasons, the CBOE is requesting approval of the proposed 20,000 and 25,000 position and exercise limit tiers for qualifying equity option classes and an expansion of the current equity option hedge exemption from two to three times the base position limit. The CBOE strongly believes that the investing community—institutions, retail customers and member firms across the board—will benefit from the proposed increases in equity option position limits and the equity option hedge exemption, particularly investors with sizeable holdings, accounts, or assets who employ equity options to hedge large stock holdings, and who have found the existing equity option position limit tiers and hedge exemption to be too restrictive. The CBOE does not believe, based on existing data, that the increased position limits and equity hedge exemption proposed herein will increase the risk of or exposure to market disruption resulting from the higher numbers of equity option contracts permitted to be under common control.

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>10</sup> in particular, in that it is designed to remove impediments to and perfect the mechanism of a free and open market and a national market system by providing investors with enhanced hedging capabilities.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

*(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

The CBOE states that it received six letters from member firms nothing that the current position limits are too low and supporting an increase in the current position limit levels,

particularly for institutional clients.<sup>11</sup> The CBOE states that it has also received comments from member firm representatives and customers that, with respect to sizeable portfolios or assets, they do not have adequate hedging capabilities under the current position limit tiers for equity options. Further, the CBOE represents that money managers have commented that the current equity option position limits are too restrictive with respect to the size of assets managed.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- (a) By order approve such proposed rule change, or
- (b) Institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC. Copies of such filing

will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-95-42 and should be submitted by September 18, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 95-21272 Filed 8-25-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36125; International Series Release No. 841 File No. SR-CBOE-95-39]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Listing and Trading of Options and Long-Term Options on the CBOE Germany 25 Index and Long-Term Options on a Reduced-Value CBOE Germany 25 Index**

August 18, 1995.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 4, 1995, the Chicago Board Options Exchange ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the CBOE. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange hereby proposes to amend certain of its rules to provide for the listing and trading on the Exchange of options on the CBOE Germany 25 Index ("Germany 25 Index" or "Index"). The text of the proposed rule change is available at the Office of the Secretary, CBOE, and at the Commission.

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The

<sup>11</sup> See Letter to Karen Charleston, CBOE, from Alfred Scerbo, Compliance Department, Bear, Stearns & Co., Inc., dated October 6, 1994; letter to Patricia Cerny, CBOE, from Heather Wood, Branch Manager, Prudential Securities, dated January 18, 1995; letter to Patricia Cerny, CBOE, from William McGowan, Senior Vice President, Mesirow Financial, dated December 20, 1994; letter to Karen Charleston, CBOE, from Scott Kilrea, LETCO, dated October 3, 1994; letter to Patricia Cerny, CBOE, from Lyn Lane, Vice President, Rauscher Pierce Refsnes, Inc., dated December 8, 1994; and letter to Patricia Cerny, CBOE, from W. Thomas Clark, Managing Director, Morgan Stanley, dated January 11, 1995.

<sup>12</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> 17 CFR 240.19b-4 (1994).

<sup>9</sup> *Id.*

<sup>10</sup> 15 U.S.C. 78f(b)(5) (1988).

CBOE has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

*(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

The purpose of the proposed rule change is to permit the Exchange to list and trade cash-settled, European-style<sup>3</sup> stock index options on the Germany 25 Index. The Index is a capitalization-weighted index of 25 German blue-chip equities listed on the Frankfurt Stock Exchange ("FSE"). The Exchange represents that options on the Index will provide investors with a low-cost means of participating in the German economy and hedging against the risk of investing in that economy.

**Index Design**

The 25 stocks comprising the Germany 25 Index were selected by the CBOE for their high market capitalization and high degree of liquidity. According to the Exchange, the Index stocks are drawn from a broad base of industries and are representative of the industrial composition of the broader German equity market. Specifically, the Index components are the top 25 German stocks by market capitalization excluding: (1) Stocks with average daily volume less than 50,000 shares per day over the past six months; and (2) preferred stock of an issuer if that issuer also has publicly-traded common stock. The Index will be reviewed annually by the CBOE at the end of May in each year and any composition changes resulting from that review will be implemented after the June expiration in that year.

The Germany 25 Index is weighted by the capitalization (market value) of the component stocks. The capitalization of a particular stock in the Index is calculated by multiplying the listed shares (including common, preferred, and treasury shares) by the price of the stock.<sup>4</sup>

On June 30, 1995, the 25 stocks in the Index ranged in capitalization from DM 3.656 billion (\$2.648 billion)<sup>5</sup> to DM 51.642 billion (\$37.408 billion). The

total capitalization of the stocks in the index on that date was DM 399.1 billion (\$289.1 billion); the mean capitalization was DM 15.96 billion (\$11.564 billion) and the median capitalization was DM 11.144 billion (\$8.072 billion). The largest stock by capitalization (Allianz AG Holdings) accounted for 12.94% of the total weighting of the Index, while the smallest (Kaufhof) accounted for 0.92%. The top 5 stocks accounted for 44.56% of the total weighting on that date.

For the period from January 1, 1995 through June 30, 1995, average daily volume in Germany 25 Index stocks ranged from a low of approximately 87,629 shares to a high of 2.53 million shares traded per day, with a mean daily trading volume for all the stocks in the Index during that period of 523,501 shares traded per day.

The Exchange represents that the Index is composed of ten (10) broad industry groupings, such as chemicals, automobile and insurance companies, among others, which reflect the industry composition of the German equity market.

**Calculation**

The CBOE states that the Germany 25 Index will reflect changes in the capitalization of the component stocks relative to the capitalization on a base date. The base date for the Index is June 30, 1995, at which time the Index was given a value of 200 by the CBOE. The Index value of 200 was reached by multiplying the price of each stock by the number of listed shares,<sup>6</sup> obtaining the sum of these values for all component stocks, and then dividing by a divisor determined to give the Index a value of 200. The CBOE states that the German 25 Index will be calculated by CBOE or its designee based on the most recent closing prices of the component stocks as reported by the FSE.

**Maintenance**

The Index will be maintained and calculated by the Exchange. To maintain continuity of the Index, the Exchange will adjust the Index to reflect certain events relating to the component stocks. For example, the Exchange will adjust the Index divisor to reflect cash dividends paid on the component securities. The Exchange will make this adjustment because German companies usually pay their dividends only once per year (generally in May or June). If not adjusted, the annual dividend payment would result in a significant drop in the Index value at the time when the dividends are paid. The

divisor will be adjusted immediately prior to each ex-dividend date so that the Index level will not be affected by the dividend payment. A similar adjustment will be applied when a company issues new shares for which the shareholders have preemptive rights, or when other intra-year events, such as mergers and spinoffs, occur.

Index replacements, other than those described above, will only be made if a component must be removed from the Index because of a merger or takeover. In that case, the next eligible component will be added, *i.e.*, the German security with the highest market capitalization not then included in the Index that satisfies the criteria set forth above.

**Index Option Trading**

In addition to regular Index options, the Exchange may provide for the listing of long-term index option series ("LEAPS") and reduced-value LEAPS on the Index ("Index LEAPS").

For reduced-value Index LEAPS, the underlying value will be computed at one-tenth of the Index level. The current and closing index value of any such reduced-value Index LEAPs will, after such initial computation, be rounded to the nearest one-hundredth.

The trading hours for options on the Index will be from 8 a.m. to 3:15 p.m., Chicago time. Currently, the trading hours of the Exchange and the FSE do not overlap.<sup>7</sup> The Exchange, therefore, will disseminate the value of the Index based on the most recent closing prices of the component stocks as reported by the FSE. After the close of the FSE, however, trading continues in the 25 stocks comprising the Index on the FSE's Integrated Stock Exchange Trading and Information System ("IBIS").<sup>8</sup> The trading hours of IBIS and the Exchange currently overlap for the two hours period between 8:00 a.m. and 10:00 a.m., Chicago time. During this two hour period, the Exchange will calculate and disseminate an "indicative" Germany 25 Index level based on the most recent prices of the component stocks as reported by IBIS.<sup>9</sup>

<sup>7</sup> The FSE's trading hours are from 10:30 a.m. to 1:30 p.m., Frankfurt time (3:30 a.m. to 6:30 a.m., Chicago time).

<sup>8</sup> According to the Exchange, the Deutsche Börse AG, the holding company for the FSE, states that IBIS is a screenbased trading and information system that is available for trading from 8:30 a.m. to 5:00 p.m., Frankfurt time (1:30 a.m. to 10:00 a.m., Chicago time). The CBOE represents that IBIS, as part of the FSE, is subject to the same rules and regulations as floor trading on the FSE. According to the Exchange, IBIS began operating in April, 1991.

<sup>9</sup> The Exchange intends to calculate the "indicative" Index with the same method of calculation as described above for the actual Index.

<sup>3</sup> European-style options may only be exercised during a specified period before the options expire.

<sup>4</sup> The Commission notes that this varies from the method used to calculate the values of domestic capitalization-weighted indexes, such as the S&P 100 Index. For such domestic indexes, values are determined based solely on the outstanding shares of common stock of each component in the indexes.

<sup>5</sup> The CBO represents that dollar values used herein are based on a German mark/U.S. dollar exchange rate of 1.3805 marks per U.S. dollar prevailing on June 30, 1995.

<sup>6</sup> See *supra* note 4 and accompanying text.

When trading on IBIS has concluded (10:00 a.m. Chicago time), the Exchange will disseminate the last "indicative" Index level. To avoid any confusion, the "indicative" Index level will have a different ticker symbol from the actual Index level.

The option premium values will be quoted in U.S. dollars and, therefore, trading accounts will be denominated in U.S. dollars. For strike prices under \$200, the Exchange reserves the right to list series in 2½ point intervals.

#### Surveillance

The Exchange expects to apply its existing index options surveillance procedures to Index options. In addition, the CBOE states that the German legislature recently adopted new laws regarding insider trading that also provide for the creation of an independent regulatory authority.<sup>10</sup> The Exchange understands that these developments will facilitate the effective coordination between the Commission and the appropriate German regulatory authority of option trading on the Germany 25 Index because they will enhance the surveillance of trading in the stocks comprising the Index. In addition, the Exchange will continue to pursue its own independent agreement with the Deutsche Börse AG (the holding company that owns the FSE) and/or the FSE.<sup>11</sup>

#### Exercise and Settlement

The proposed options on the Index will expire on the Saturday following the third Friday of the expiration month. Trading in the expiring contract month will normally cease at 3:15 p.m. (Chicago time) on the immediately preceding Thursday, unless a holiday occurs. The exercise settlement value of the Index at option expiration will be calculated by the Exchange on the day following the last day of trading in the expiring contracts. The exercise settlement value of Index options at expiration will be determined at the close of the regular Friday trading sessions at the FSE in Germany, ordinarily at 1:30 p.m., Frankfurt time (6:30 a.m., Chicago time), *i.e.*, values of component stocks disseminated through IBIS will not be used in calculating the settlement values for Index options or

Index LEAPS.<sup>12</sup> If an Index stock does not open for trading at the FSE, the last available price on the FSE of the stock will be used in the calculation of the value of the Index. When expirations are moved in accordance with Exchange holidays, such as when the CBOE is closed on the Friday before expiration, the last trading day for expiring options will be Wednesday and the exercise settlement value of Index options at expiration will be determined at the close of the regular Thursday trading sessions at the FSE in Germany even if the FSE is open on Friday. If the FSE will be closed on the Friday before expiration but the CBOE will not, the last trading day for expiring Index options and Index LEAPS will be Wednesday.<sup>13</sup>

#### Position Limits

The Exchange proposes to establish position limits for options on the Index of 50,000 contracts on either side of the market, with no more than 30,000 contracts in the series with the nearest expiration month. The Exchange represents that these limits are roughly equivalent, in dollar terms, to the limits applicable to options on other approved broad-based indexes.

#### Exchange Rules Applicable

Except as modified herein, the rules in Chapter XXIV of the CBOE's rules will be applicable to Germany 25 Index options, including Index LEAPS.

The Exchange states that it has the necessary systems capacity to support new series that would result from the introduction of Germany 25 Index options. The CBOE also states that it has been informed that the Options Price Reporting Authority ("OPRA") has the capacity to support such new series.<sup>14</sup>

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>15</sup> in particular, in that it is designed to permit trading in options based on the Germany 25 Index pursuant to rules designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade, and thereby will provide investors with the

ability to invest in options based on an additional index.

#### (B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

#### (C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments on the proposed rule change were neither solicited nor received.

### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- (a) By order approve such proposed rule change, or
- (b) Institute proceedings to determine whether the proposed rule change should be disapproved.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, NW., Washington, DC. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-95-39 and should be submitted by September 18, 1995.

<sup>12</sup> *Id.*

<sup>13</sup> In this circumstance, the CBOE will issue a notice to members informing them that the last trading day for Index options and Index LEAPS will be on Wednesday even though the CBOE will be open on expiration Friday. *Id.*

<sup>14</sup> See Letter from Joe Corrigan, Executive Director, OPRA, to Eileen Smith, Director, Product Development, Research Department, CBOE, dated November 21, 1994.

<sup>15</sup> 15 U.S.C. 78f(b)(5) (1988).

<sup>10</sup> The Commission notes that this new regulatory body, the Bundesaufsichtsamt für den Wertpapierhandel, was established in January 1995.

<sup>11</sup> Telephone conversation between Eileen Smith, Director, Product Development, Research Department, CBOE, and Brad Ritter, Senior Counsel, OMS, Division, Commission, on August 8, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>16</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 95-21273 Filed 8-25-95; 8:45 am]

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[Release No. 34-36128; International Series Release No. 843; File No. SR-CBOE-95-41]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated, Relating to Warrants on the Japanese Export Stock Index**

August 21, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 7, 1995, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange proposes to list and trade warrants on the Japanese Export Stock Index ("Japan Export Index" or "Index"). The text of the proposed rule change is available at the Office of the Secretary, the Exchange, and at the Commission.

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Section (A), (B), and (C) below, of the most significant aspects of such statements.

**(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

The Exchange represents that it is permitted to list and trade index warrants under CBOE Rule 31.5(E). The Exchange is now proposing to list and trade index warrants based upon the Japan Export Index. The Exchange further represents that the listing and trading of Index warrants will comply in all respects with CBOE Rule 31.5(E), as discussed below.

**Index Design**

The Japan Export Index is an "equal dollar weighted" broad-based index comprised of the stocks of 40 of the largest Japanese export companies, as measured by total yen-denominated export revenue, listed on the Tokyo Stock Exchange ("TSE").<sup>3</sup> At the outset each of the component securities comprising the Index will be equally represented. Thus, on the day warrants on the Index are priced for sale to the investing public, each component security will represent 2.5% of the original Index value.

The Japan Export Index stocks are drawn from a broad base of industries and are representative of the industrial composition of the broader Japanese equity market. Business sector representation in the Index as of June 30, 1995, was as follows: (1) Autos and auto parts (25%) (10 Issues); (2) Electric Machinery—diversified (22.5%) (9 issues); (3) Consumer Electronics (20%) (8 issues); (4) Iron and Steel (7.50%) (3 issues); (5) Precision instruments (7.5%) (3 issues); (6) Shipbuilding (5%) (2 issues); (7) Chemicals (5%) (2 issues); (8) Machinery (2.5%) (1 issue); (9) Computers and semiconductors (2.5%) (1 issue); and (10) Services (2.5%) (1 issue).

As of June 30, 1995, the CBOE represents that the 40 stocks contained in the Index range in market capitalization from \$1.59 billion to \$74.76 billion. The median capitalization of the component securities in the Index was \$7.6 billion.

<sup>3</sup> The components of the Index are as follows: Aiwa; Bridgestone Corp.; Canon; Casio Computer; Citizen Watch. Fuji Heavy Inds.; Fuji Photo Film; Hitachi, Honda Motor; Isuzu Motor; Kawasaki Heavy Ind.; Kawasaki Steel; Komatsu Ltd.; Konica Corp.; Kyocera Corp.; Kyushu Matsushita; Matsushita Eltr.; Matsushita Elect I; Mazda Motor; Mitsubishi Heavy; Mitsubishi Motors; NEC; Nikon Corp.; Nintendo; Nippon Steel; Nissan Motor; OKI Electric Ind.; Pioneer Eltr.; Ricoh Co. Ltd.; Sanyo Electric; Sega Enterprises; Sharp Corp.; Sony; Sumitomo Mtl. Ind.; Suzuki Motor; TDK Corporation; Toshiba; Toyota Motor; Victor Co. of Japan; and Yamaha Motor.

Total market capitalization for the Index was approximately \$451 billion.<sup>4</sup>

**Calculation**

The Index will be calculated by determining a multiplier such that each security will represent an equal percentage (2.5%) of the Index on the date the warrants are priced for initial sale to the public. The Index value for any day will equal the sum of the products of the most recently available market prices and the applicable multipliers for the component securities. The Index value will be set equal to 100 on the date the warrants are priced for initial offering to the public. In the event that a security does not trade on a given day, the previous day's last sale price is used for purposes of calculating the Index. In the event that a given security has not traded for more than one day, then the last sale price on the last day on which the security was traded will be used.

**Maintenance**

The Index will be calculated by the Exchange based on closing prices on the TSE each day and will be disseminated before the opening of trading via Options Price Reporting Authority. The Index will be rebalanced on the last trading day of the year such that the components again represent an equal percentage (2.5%) of the Index. The components of the Index will remain unchanged unless it becomes necessary to remove a component security due to a merger, takeover, or some other event where the issuer of the component security is not the surviving entity. If a component security is removed, another security will be added to preserve the character of the Index. To ensure continuity in the Index's value, the index divisor will be adjusted to reflect, among other things, certain rights issuances, stock splits, rebalancing, and component security changes.

**Index Warrant Trading**

The proposed warrants will be direct obligations of their issuer subject to cash-settlement in U.S. dollars, and either exercisable throughout their life (i.e., American-style) or exercisable only immediately prior to their expiration date (i.e., European-style). Upon exercise, the holder of a warrant structured as a "put" would receive payment in U.S. dollars to the extent that the index value has declined below a pre-stated cash settlement value. Conversely, upon exercise, the holder of a warrant structured as a "call" would

<sup>4</sup> Based on the exchange rate of 85 yen/US\$ 1 prevailing on June 30, 1995.

<sup>16</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.